

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH 03026432

February 26, 2003

**INITIAL STATEMENT OF REASONS
REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM
UNINSURED MOTORISTS AND MEDICAL PAYMENTS COVERAGES**

INTRODUCTION

California Insurance Commissioner John Garamendi will hold a public hearing to consider rates, coverage limits, and a premium payment plan for optional uninsured motorists and medical payments coverages under the California Low Cost Automobile Insurance Program.

Senator Escutia's newly enacted low cost automobile insurance program legislation, 2002 Stats., chapter 742 (formerly SB 1427), effective January 1, 2003, requires that uninsured motorists and medical payments coverages be offered to eligible consumers. The legislation does not specify a rate, but merely states that additional premiums are authorized. Consistent with California Insurance Code Section 11580.2, the legislation provides for uninsured motorists bodily injury coverage at the lower liability limits of the underlying low cost auto insurance policy, but does not specify limits for the medical payments coverage. In addition, the legislation adds a new premium installment payment option of a fifteen percent advance deposit with six installments, but does not specify if the installment payments are to be made on a monthly or bi-monthly basis.

In consultation with the Advisory Committee of the California Automobile Assigned Risk Plan (CAARP), the Commissioner established initial rates and limits for these additional coverages through emergency regulatory action, approved January 10, 2003. Although CAARP proposed higher rates, the Department adopted different rates than those proposed by CAARP, based on independent calculations and actuarial review of CAARP's methodology and approach. Currently, the annual premiums for uninsured motorists bodily injury coverage at the lower liability limits of the low cost auto policy are \$64 per vehicle for Los Angeles County and \$39 per vehicle for the City and County of San Francisco. The current rates for medical payments coverage, at limits of \$1,000, are \$26 for Los Angeles County and \$24 for the City and County of San Francisco.

California Insurance Code Sections 11629.72(c) and 11629.92(c) provide that, annually, CAARP shall submit a proposed rate to the Commissioner for approval. Accordingly, CAARP submitted proposed rates for these additional coverages. In its rate application, CAARP proposed premiums for uninsured motorists bodily injury coverage at the lower liability limits of the low cost auto insurance policy of \$761 for Los Angeles County and \$531 for the City and County of San Francisco. For medical payments coverage, with limits of \$1,000, CAARP proposed

premiums of \$142 for Los Angeles County and \$89 for the City and County of San Francisco. Further details appear in the application on file with the Commissioner and available for review. CAARP further proposed that the new premium payment plan be based on six monthly payments. Existing installment payment options in the program are based on bi-monthly payments, as a result of consumer comments during the initial establishment of the pilot programs.

California Insurance Code Sections 11629.7 through 11629.84 establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the County of Los Angeles. Sections 11629.9 through 11629.995 of the Insurance Code establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the City and County of San Francisco.

Because the low cost automobile insurance pilot programs are established and administered through CAARP, established under Sections 11620-11627 of the California Insurance Code, CAARP procedures are applied to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Pursuant to California Insurance Code Sections 11620 and 11624, the Commissioner approves rates for those obtaining coverage through the assigned risk plan. Before amending premium rates for CAARP, the Commissioner holds a public hearing.

For the low-cost automobile insurance pilot programs, California Insurance Code Sections 11629.7 and 11629.9 require the Commissioner, after a public hearing, to approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible persons residing in the County of Los Angeles and the City and County of San Francisco. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references the plan. This plan, approved by the Commissioner, contains rules and rates.

Therefore, the Commissioner is holding this hearing to consider the rate alternatives for the legislatively-mandated additional coverages and the premium payment option under the low-cost automobile insurance program.

STATEMENT OF SPECIFIC PURPOSE AND NECESSITY

The specific purpose of each regulation and the rationale for the Commissioner's initial determination that each regulation is reasonably necessary to carry out the purpose for which it is proposed is set forth below:

Section 25. Extent of Coverage

Newly-enacted low cost automobile insurance program legislation, 2002 Stats., chapter 742, requires that uninsured motorists and medical payments coverages be offered to eligible consumers. The legislation provides for uninsured motorists coverage limits consistent with California Insurance Code Section 11580.2, which requires bodily injury coverage with limits equal to the limits of liability in the underlying automobile policy. Under the pilot programs, the low cost auto policy provides \$10,000 for liability for bodily injury or death to one person, subject to a cumulative limit of \$20,000 for all persons in one accident. The legislation further provides that these lower liability limits satisfy financial responsibility laws. However, the legislation does not specify coverage limits for medical payments coverage.

Since the optional uninsured motorists and medical payments coverages are newly mandated, the existing Section 25 on Extent of Coverage in the current Plan of Operations only sets forth coverages and limits for the basic low cost auto policy.

The proposed new subsection 2 adds the new optional coverages. Under the new proposed provision of subsection 2a, coverage liability limits of \$10,000/\$20,000 for uninsured motorists bodily injury coverage are set forth, conforming to the mandates of 2002 Stats., chapter 742, amending California Insurance Code Sections 11629.71 and 11629.91. The subsection provides that these limits satisfy financial responsibility laws, as set forth in the legislation. An insured may reject uninsured motorists coverage if the assigned insurer and named insureds agree in writing to delete this protection. If previously rejected, the assigned insurer need not offer to provide this coverage in a renewal policy. These provisions conform to California Insurance Code Section 11580.2.(a).

Under the new proposed provision of subsection 2b, coverage limits of \$1,000 are set forth for medical payments coverage. Such limit was proposed by CAARP and is consistent with the coverage limits of CAARP policies. Adopting these provisions are necessary to establish uniform coverage limits for the legislatively-mandated coverages so that the consumer pays the same rate for the same coverage irrespective of what company the consumer is assigned.

Other changes are technical and non-substantive, such as re-numbering changes, and are proposed to maintain a topical flow of information for ease of readability.

Section 26 Premium Payment Options

Senator Escutia's newly enacted low cost automobile insurance program legislation added another premium payment option to the existing payment options in California Insurance Code Sections 11629.72 and 11629.92, specifically a fifteen percent down payment with the remainder to be paid in six payments. The legislation does not specify if payments are to be made on a monthly or bi-monthly basis. Existing premium payment options are paid on a bi-monthly basis, although CAARP has proposed payments on a monthly basis.

Existing Section 26 C on Installment Premium Payment Options sets forth the requirements and procedures for the two existing installment premium payment options. The proposed new subsection 3 adds a third option, specified in the legislation, with respect to requirements and procedures, and follows the requirements and procedures of the existing payment options. The Commissioner is holding a hearing to determine the payment schedule of monthly or bi-monthly installments for this option. Adopting this subsection is necessary to conform to the legislative mandate of 2002 Stats., chapter 742. Adopting a payment schedule is necessary so that participating insurers and consumers are knowledgeable about their rights and obligations.

Section 27 Premium Determination

The newly enacted low cost automobile program legislation requires that uninsured motorists and medical payments coverages be offered to eligible consumers, without specifying rates. It merely states that additional premiums are authorized. Under the pilot programs, rates are uniform so that the consumer pays the same rate irrespective of what company the consumer is

assigned. Because the legislation required these coverages to be offered as of January 1, 2003, adoption of rates on an emergency basis was the only way to implement rates as close to that date as possible. CAARP proposed rates for these coverages. After reviewing CAARP's methodology and approach, the Department determined that rates different than those proposed by CAARP should be established for the legislatively-mandated coverages. As approved by emergency regulatory action on January 10, 2003, the current rates for uninsured motorists bodily injury coverage, with limits of \$10,000/\$20,000, are \$64 for Los Angeles County and \$39 for the City and County of San Francisco. Current rates for medical payments coverages, at \$1,000 limits, are \$26 for Los Angeles County and \$24 for the City and County of San Francisco.

California Insurance Code Sections 11629.72(c) and 11629.92(c) require that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate for approval. CAARP submitted a proposed rate for the additional coverages, proposing premiums of \$761 for Los Angeles County and \$531 for the City and County of San Francisco for uninsured motorists bodily injury coverage at \$10,000/\$20,000 limits. For medical payments coverage, at \$1,000 limits, CAARP proposed premiums of \$142 for Los Angeles County and \$89 for the City and County of San Francisco.

The statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the pilot programs or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot program by policyholders in the other pilot program.

Existing Paragraph C on Rates in Section 27 of the current Plan of Operations sets forth rates for the basic low cost auto policy. A topical heading has been proposed to differentiate these rates from the rates for the additional coverages. The rationale for this proposed technical change is to insure ease of readability.

New subsections 2a and 2b have been proposed to set forth rates for uninsured motorists bodily injury coverage and medical payments coverages, mandated by the new legislation. In accordance with statutory rate-setting standards, the Commissioner is holding a hearing to consider current rates, CAARP's rate proposal, and alternatives. Adopting these subsections is necessary to clarify rates for the additional coverages so that the consumer pays the same rate for the same coverage irrespective of what company the consumer is assigned.

IDENTIFICATION OF STUDIES

CAARP's rate application relies upon the expertise of CAARP's technical staff. The Department's rate proposal, adopted in an emergency regulatory action, relies upon the expertise of the Department's technical staff. Other than CAARP's application and the Department's rate proposal and accompanying explanatory memorandums and exhibits, however, no studies have been submitted for this proceeding.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rates would not mandate the use of specific technologies or equipment.

REASONABLE ALTERNATIVES

The Commissioner invites public comments on the pending rate alternatives or reasonable alternatives which would be as effective to carry out the statutory mandate and be less burdensome to affected persons and small businesses.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.